

Quick Guide

Implementation of Targeted Financial Sanctions Relating To Terrorism Financing for Reporting Institutions in the Capital Market



What is Terrorism Financing (TF)?

TF is an act of providing funds or financial support, either directly or indirectly to individuals or groups with the intent to use those funds for terrorist activities which includes any financial transaction intended to support acts of terrorism or to further the objectives of terrorist organizations.



What is targeted financial sanctions (TFS)?

TFS are measures for asset freezing and prohibitions to prevent funds or other assets from being made available, directly or indirectly, for the benefit of specified entities/ designated persons who are being sanctioned.



What are the relevant UNSCRs for TFS-TF?

UNSC Resolutions 1267 (1999), 1373 (2001), 1988 (2011), 1989 (2011), 2253 (2015) which require sanctions against individuals and entities associated to al-Qaida, Taliban, and the Islamic State in Iraq (Da'esh)



What are the main legislation(s) in Malaysia for TFS-TF?

Anti-Money Laundering, Anti-Terrorism Financing and Proceeds of Unlawful Activities Act 2001 (AMLA)



What is TF Risk?

TF risk is limited to potential breach, non-implementation or evasion of the TFS-TF under Part VII of the SC's Guidelines on Prevention of Money Laundering, Countering Financing of Terrorism, Countering Proliferation Financing and Targeted Financial Sanctions for Reporting Institutions in the Capital Market which was revised on 13 June 2024 (AML Guidelines).

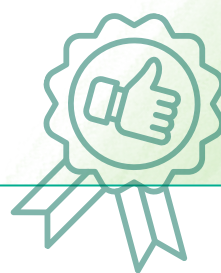


How do Reporting Institutions (RIs) identify, assess and understand TF risks?

An RI must take appropriate steps to identify, assess and understand TF risks in relation to:

- customers
- countries or geographical areas
- products and services
- transactions or delivery channels
- other relevant factors

An RI must be guided by the results of the National Risk Assessment (NRA) issued by the National Coordination committee (NCC) in conducting its own risk assessments



Best Practices

- Ongoing screening is conducted on a daily basis (e.g. the end of the day) via delta screening or against the sanctions lists on customers and related parties in addition to screenings at the point of on-boarding.
- Adoption of automated tools enabling combined permutations when performing screening to result in better quality of alerts for e.g. a combination of name matches, linguistic and mathematical edit distance-based algorithms, identification of typographical errors in names, etc. reducing false positive alerts.
- Establishment of a dedicated unit/ team to handle sanctions screening reviews and the closure of sanctions alerts.
- Integration of RIs' operating/back-office systems which enables real-time screening during customer onboarding (including via 3rd party distribution channels)
- Back testing of screening system to ensure timely updates to the sanctions database provided by the third-party service providers in accordance with the relevant sanctions lists to ensure implementation of TFS obligation is effected without delay.



What are the main obligations that reporting institutions must comply with under the SC's AML Guidelines?

1 To maintain sanctions list

- Keep updated of various United Nations Security Council Resolution UNSCR , the list of listed persons on TFS-TF and orders as may be issued under sections 66B and 66C of the AMLA by the Minister of Home Affairs (MOHA) .
- Maintain updated and current database of name and particulars of the listed persons.

2 To conduct screening on customers

- Conduct screening on existing, new and potential customers to check for any positive name matched with any name listed by UNSCR or the domestic lists.
- Screen its entire customer database within a reasonable time when new names are listed on a UNSCR or the domestic lists.
- Screening also includes funds derived from property owned or controlled by listed entities or by persons acting on their behalf or at their discretion (related parties).

3 Obligations to freeze funds, properties or accounts

- A reporting institution is required to freeze funds, properties or accounts that are owned or controlled directly and indirectly by the listed entities without delay (ideally within a matter of hours of designation)
- If a listed entity indirectly owns or controls funds, properties, or accounts through a customer—such as when the entity's director has direct or indirect control over these assets—the reporting institution must promptly freeze these assets once it confirms the connection.
- The obligation to freeze the funds, properties, or accounts of a listed entity remains in effect until the entity delisted, even if the entity dies.
- If assets jointly owned by listed entity cannot be segregated, entire asset should be subject to freezing.
- Frozen assets can continue to receive dividends, interest etc, but such benefit must remain frozen.
- If a customer's account is mistakenly frozen or a transaction is wrongly rejected due to a false positive match, the reporting institution should direct the customer to the Ministry of Home Affairs for verification.

4 To report to authorities

- When a reporting institution identifies that it holds funds, properties, or accounts owned or controlled by a listed entity, it must report this to the Securities Commission Malaysia as the relevant Supervisory Authority, Financial Intelligence and Enforcement Department (FIED) Bank Negara Malaysia and Inspector-General of Police. This obligation also applies to any attempted transactions by listed entities or related parties.
- When submitting a suspicious transaction report to the FIED, a reporting institution should provide details and analysis of the customer due diligence (CDD), ongoing CDD information, and transaction activities of the listed entity or related parties.
- A reporting institution is encouraged to review and analyze past financial activities of customers and related parties with matching names who have closed their accounts.
- A reporting institution is also under an obligation to report to the SC periodically every six months for both lists on frozen funds, properties or accounts of customers that are listed.